

## Operating Review

### DCC SerCom

DCC SerCom is a leading distributor of IT, Communications and Home Entertainment products in Britain, Ireland and France and also provides outsourced procurement and supply chain management services in Ireland, Poland, China and the USA.

#### Markets and Market Position

DCC SerCom sells a broad range of IT and communications products into both the SME and retail markets, to a very wide customer base of IT and mobile resellers, dealers, retailers and e-tailers in Britain, Ireland, France and the Netherlands. The products distributed include PCs, tablets, printers, smartphones, peripherals, consumables and networking products. The business is a distribution partner of many of the leading vendors in the IT and communications market, such as Acer, Asus, Cisco, Dell, Huawei, IBM, Lenovo, LG, Microsoft, Netgear, Nokia, Plantronics, Samsung, Sony, Toshiba and Western Digital.

DCC SerCom also sells a range of home entertainment and consumer products including games consoles and software, DVDs, consumer electronics, AV accessories and peripherals which are sold into the retail channel, including large e-tailers, grocers, catalogue retailers, specialist retailers and small independent retailers. DCC SerCom represents many of the leading vendors in the computer games, home entertainment and consumer electronics markets such as Belkin, Devolo, D-Link, Electronic Arts, iHome, Logitech, Microsoft, Netgear, Nintendo, Paramount, Seagate, Sony, Take-Two, TomTom and Warner Brothers.

In addition, DCC SerCom provides a range of supply chain management services, including a range of specialist procurement and sourcing services from its operations in Ireland, Poland, China and the United States, employing state of the art IT systems and procurement processes. The business is a strategic supply chain partner for some of the world's leading technology and telecommunications companies.

DCC SerCom provides its partners with an exceptionally broad customer reach and proactively markets its vendors' products through product and customer focused sales teams. The business provides a range of value-added services to the retail and reseller channels, to both its customers and suppliers, including end-user fulfillment, digital distribution, third party logistics, web site development and management, category management and merchandising, kitting, product customization, security tagging and cross vendor bundling. In addition to the core distribution activities, DCC SerCom also provides supply chain management services globally, including vendor hubbing, consignment stock programmes, supplier identification and qualification, quality assurance and compliance and supplier and customer fulfillment, to effectively reduce its partners' cost of production and reduce obsolescence and wastage. It also delivers a range of post-manufacturing supply chain services designed to bring its customers products to market in the most efficient manner possible, including localisation, customisation and other services.

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DCC SERCOM PROVIDES ITS PARTNERS WITH AN EXCEPTIONALLY BROAD CUSTOMER REACH AND PROACTIVELY MARKETS ITS VENDORS' PRODUCTS THROUGH PRODUCT AND CUSTOMER FOCUSED SALES TEAMS.

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## Revenue

**€2,269.1m**

2012: €1,841.8m\*

Change on prior year

Reported: +23.2%

Constant currency: +17.9%

## Operating profit

**€50.9m**

2012: €47.9m\*

Change on prior year

Reported: +6.1%

Constant currency: +1.3%

## Return on total capital employed

**16.4%**

2012: 15.9%\*

\*excluding DCC SerCom's Enterprise distribution business which was disposed of in June 2012.

## Brands

Acer, Apple, Asus, Belkin, Cisco, Dell, Devolo, D-Link, Electronic Arts, Epson, Fujitsu, Huawei, IBM, iHome, Lenovo, LG, Logitech, Microsoft, Netgear, Nintendo, Nokia, Paramount, Plantronics, Samsung, Sandisk, Seagate, SerCom Solutions\*\*, Sony, Symantec, Take-Two, TomTom, Toshiba, Warner Brothers, Western Digital.

\*\* DCC owned brands



## Operating Review

### DCC SerCom (continued)



## Case Study

### DCC SERCOM EMERGES AS A MAJOR PLAYER IN UK MOBILE DISTRIBUTION

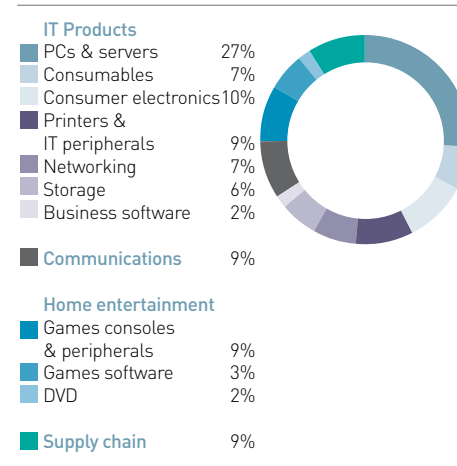
Three years ago DCC SerCom identified mobile communications as a target area for organic expansion, given the likely future convergence of IT and mobile devices. Without having an established mobile customer or product supply base, DCC SerCom began to invest in a quality team of experienced technical and sales personnel to leverage the strong, proactive service-led capabilities of the business in its established IT distribution market. Although starting from a position of considerable disadvantage to the large incumbent mobile distributors, DCC SerCom achieved a considerable endorsement of its progress when it was awarded distribution of Nokia devices in October 2011. From this point the business has continued to grow strongly and now distributes a broad range of mobile devices as well as 'converged' devices such as tablets where it is now the market leader in the UK for Android and Windows 8 devices. In a relatively short period of time the UK mobile business has built a large customer base of over 1,000 dealers, network operators, virtual network operators, retailers and e-tailers. We estimate that the business is now the number two player in the mobile distribution market in the UK, from a modest base just two years ago. We believe that this success has been built on the flexible, service-led approach which has brought a differentiated offering to the market. In addition to the distribution of hardware devices, the business is now also targeting the distribution of mobile accessories and peripherals as an area of growth for the future. The continued drive for excellence within the business has been recognised by the receipt of a number of trade awards, including 'Mobile Hardware Distributor of the Year' in the UK both 2012 and 2013.

DCC SERCOM'S STRATEGY IS TO DELIVER CONSISTENT LONG-TERM PROFIT GROWTH AND INDUSTRY LEADING RETURNS ON CAPITAL EMPLOYED BY BUILDING STRONG COMMERCIAL AND MARKET POSITIONS IN EACH OF ITS FOCUSED BUSINESS UNITS.

During the year, the business extended its capability in unified communications through the acquisition of Go Connect, a Netherlands-based distributor and service provider in voice, video and cloud-based conferencing solutions. The business in Britain has continued to significantly expand its market position in the mobile communications market in the past year and has developed its product offering, particularly with smartphones and tablet computers, to take advantage of the growing convergence of the IT and mobile communications markets and channels.

In Britain, DCC SerCom is number 1 in home entertainment products and number 2 in IT and communications products. In Ireland it is number 1 in home entertainment and IT products. In France, it is number 7 in IT products. DCC SerCom is the fifth largest distributor of IT, communications and home entertainment products in Europe.

DCC SerCom's revenue for the year ended 31 March 2013 by product type is as follows:





DCC SerCom's principal market is the distribution of IT products and home entertainment products in Britain, France and Ireland. The value of the IT distribution market in those three territories is estimated to be €20 billion and we estimate that this market grew by 6% in the twelve months to 31 December 2012. The home entertainment market in Britain and Ireland is valued at €6 billion of which we estimate €1.25 billion is supplied through the distribution channel and we further estimate that this market declined by over 15% in the year to 31 December 2012, including a decline of over 25% in the video games market.

The supply chain management business operates in the market for global outsourced supply chain management services, excluding the provision of logistics services.

### Strategy and Development

DCC SerCom's strategy is to deliver consistent long-term profit growth and industry leading returns on capital employed by building strong commercial and market positions in each of its focused business units.

DCC SerCom's principal medium term objectives are:

- to be a leading distributor of mobile, IT and communications products and related accessories and services in Western Europe through continued investment in organic development complemented by acquisitions to extend its geographic presence;
- to establish its consumer facing distribution business as the leading specialist service provider to the European retail sector, with a particular focus on online, catalogue and supermarket channels, by extending its market and service coverage; and
- to become the leading SME facing IT and communications distribution business in the UK and Ireland, and a growing player in Europe, through the continued expansion of its product and customer base, including expansion into complementary sectors such as audio visual, communications and mobile.

### Customers

DCC SerCom has a very broad customer base, dealing with in excess of 14,000 customers each year. The largest customer accounted for approximately 11% of revenues in the year ended 31 March 2013 and the ten largest customers accounted for 39% of total revenues in that year.

DCC SerCom seeks to provide the highest possible standard of customer service combining an unrivalled range of services with a commitment to identify the most cost effective and flexible solutions to our customers' requirements. We also seek to provide our suppliers with access to the broadest possible SME and consumer-facing customer base for their products.

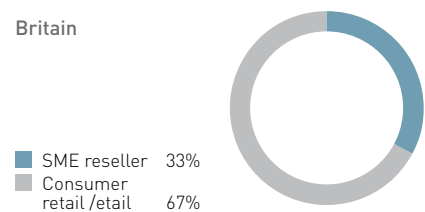
Our supply chain services customers include IT equipment manufacturers, outsourced equipment manufacturers, consumer electronics companies and telecommunications equipment manufacturers. Customer relationships in this area of business tend to be long term in nature and several of our customers have been dealing with the company for over ten years.

### Suppliers

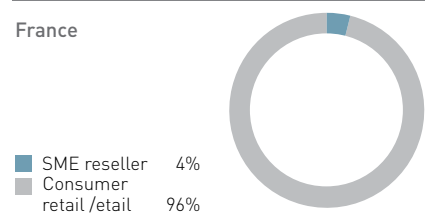
DCC SerCom's distribution activities have a diverse supplier base and deals with hundreds of vendors including the leading global suppliers of IT, communications and home entertainment products such as Apple, Acer, Asus, Belkin, Cisco, Dell, Devolo, D-Link, Electronic Arts, Epson, Fujitsu, Huawei, IBM, Lenovo, LG, Logitech, Microsoft, Netgear, Nintendo, Nokia, Plantronics, Samsung, Seagate, Sony, Symantec, Take-Two, TomTom, Toshiba and Western Digital. The largest supplier accounted for 14% of total purchases in the year ended 31 March 2013 and the top ten suppliers represented 52% of total purchases.

### Principal Distribution Markets Analysis of revenue by customer type

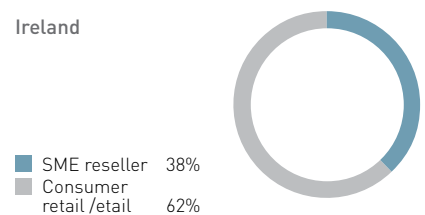
#### Britain



#### France



#### Ireland



## Operating Review

### DCC SerCom (continued)

DCC SerCom adopts a proactive approach to the identification and recruitment of new suppliers and technologies and seeks to position itself as the obvious choice for growing vendors to access the retail and reseller channels in the markets it services. In addition, it seeks to ensure that it has a position of strategic relevance with its principal suppliers.

The supply chain management business deals with a broad range of suppliers including manufacturers of electronic components, print suppliers, original design equipment manufacturers and IT distributors. A core element of the services provided by the business is the identification of appropriate supply chain partners for its customers and carrying out the quality assurance on those suppliers to ensure that they conform to necessary quality, regulatory and ethical standards.

#### Our People

DCC SerCom employs 1,670 people in 10 countries and recognises that they are fundamental to the ongoing success of the business. At all levels employees are encouraged to adopt a flexible, service orientated approach to meeting the demands of suppliers and customers.

At senior management level, our operating businesses are run by some of the strongest management teams in the industry. DCC SerCom seeks to foster and maintain an entrepreneurial culture, coupled with a commitment to ensuring that the highest ethical standards in business conduct are maintained.

DCC SerCom fully supports the DCC Graduate Programme and operates a wide variety of employee training programmes within individual businesses to promote the ongoing development of staff.

#### Key Risks

DCC SerCom faces a number of strategic, operational, compliance and financial risks. The business supplies end users in the business and consumer markets in Western Europe and further economic downturn and disruption in these markets is a key risk for the business.

In addition, the business would be significantly impacted by the loss of a small number of key suppliers and customers.

#### Sustainability

DCC SerCom is committed to conducting its business in a sustainable manner and this commitment is reflected in how it interacts with customers, suppliers, employees and the communities in which it operates. In common with the rest of the DCC Group, the business has processes to assess and control health and safety risks, reduce carbon emissions and uphold the highest standards of business ethics.

DCC SerCom is also focused on enabling our ultimate customers to behave in a more sustainable manner by reducing energy usage and inefficiency, through, for example, the use of video conferencing or home working opportunities.

#### Performance for the Year Ended 31 March 2013

DCC SerCom's operating profits increased by 1.3% on a constant currency basis. DCC SerCom achieved excellent organic growth in mobile devices in Britain and in its supply chain management activity, where it benefited from a significant finished goods fulfilment programme. This growth more than offset the effect of the decline in the market for home entertainment products in Britain and Ireland.

DCC SerCom achieved organic revenue growth of 16.8% on a constant currency basis, reflecting very strong growth in IT and communications products and the supply chain fulfilment contract noted above. The change in the product mix, with a lower proportion of home

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DCC SERCOM IS COMMITTED TO CONDUCTING ITS BUSINESS IN A SUSTAINABLE MANNER AND THIS COMMITMENT IS REFLECTED IN HOW IT INTERACTS WITH CUSTOMERS, SUPPLIERS, EMPLOYEES AND THE COMMUNITIES IN WHICH IT OPERATES.

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## DCC SerCom: Key Financial Performance Indicators

Strategic objective	KPI	Performance				
Drive for enhanced operational performance	Revenue growth (constant currency)	<div><div></div><div></div></div> <table><tr><td>€2,269.1m</td><td>2013</td></tr><tr><td>€1,841.8m*</td><td>2012</td></tr></table> <p>Constant currency 2013 v 2012: +17.9%</p>	€2,269.1m	2013	€1,841.8m*	2012
€2,269.1m	2013					
€1,841.8m*	2012					
Drive for enhanced operational performance	Operating profit growth (constant currency)	<div><div></div><div></div></div> <table><tr><td>€50.9m</td><td>2013</td></tr><tr><td>€47.9m*</td><td>2012</td></tr></table> <p>Constant currency 2013 v 2012: +1.3%</p>	€50.9m	2013	€47.9m*	2012
€50.9m	2013					
€47.9m*	2012					
Grow operating margin	Operating margin	<div><div></div><div></div></div> <table><tr><td>2.2%</td><td>2013</td></tr><tr><td>2.6%*</td><td>2012</td></tr></table>	2.2%	2013	2.6%*	2012
2.2%	2013					
2.6%*	2012					
Deliver superior shareholder returns	Return on capital employed ('ROCE')	<div><div></div><div></div></div> <table><tr><td>16.4%</td><td>2013</td></tr><tr><td>15.9%</td><td>2012</td></tr></table>	16.4%	2013	15.9%	2012
16.4%	2013					
15.9%	2012					
Generate cash flows to fund organic and acquisition growth and dividends	Operating cash flow	<div><div></div><div></div></div> <table><tr><td>€122.2m</td><td>2013</td></tr><tr><td>€15.0m</td><td>2012</td></tr></table>	€122.2m	2013	€15.0m	2012
€122.2m	2013					
€15.0m	2012					
Deliver superior shareholder returns	10 year operating profit CAGR	<div><div></div><div></div></div> <table><tr><td>4.8%</td><td>2013</td></tr><tr><td>5.7%</td><td>2012</td></tr></table>	4.8%	2013	5.7%	2012
4.8%	2013					
5.7%	2012					

\*excluding DCC SerCom's Enterprise distribution business which was disposed of in June 2012.

entertainment products in Britain and AV products in France along with a higher percentage of tablet and computing products, gave rise to a reduction in the overall operating margin of the business.

The business in Britain, which accounted for 72% of revenue, achieved very strong organic growth in its IT and communications product sectors, particularly in mobile devices such as smartphones and tablet computers. This reflects the rapid market acceptance of new computing and leisure form factors and the investment made in recent years to position the business as a significant participant in this market. DCC SerCom remains well placed to benefit from the ongoing demand from consumers and businesses to access content and data on a broad range of converged technology devices.

The home entertainment market in the UK declined by over 15% in the calendar year 2012, with the market for console gaming software and hardware

declining by over 25% in the period due to a combination of factors, including a cyclical decline in anticipation of the next generation of consoles due to be launched in the current financial year. This decline had a negative impact on DCC SerCom's businesses in Britain and in Ireland. However, DCC SerCom has continued to develop its product and service portfolio in this market and is well placed to benefit from an upswing in the console gaming cycle.

The business in France achieved organic volume growth of 4.6% but profits declined due to a change in the product mix as the market for certain higher margin AV accessories declined.

DCC SerCom's supply chain management activity had a very strong year reflecting the contribution from a significant finished goods fulfilment contract, which is scheduled to wind down in the first half of the financial year to 31 March 2014.

THE BUSINESS IN BRITAIN, WHICH ACCOUNTED FOR 72% OF REVENUE, ACHIEVED VERY STRONG ORGANIC GROWTH IN ITS IT AND COMMUNICATIONS PRODUCT SECTORS, PARTICULARLY IN MOBILE DEVICES SUCH AS SMARTPHONES AND TABLET COMPUTERS.